

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-05 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 SOE-02
OMB-01 DOE-11 /100 W
-----039527 301220Z /12

R 301201Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4412
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY COPENHAGEN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT

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USEEC USOECD

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TAGS: EIND, ETRD, EEC
SUBJ: FRG REACTIONS TO EC ACTIONS ON STEEL

REF: (A) BRUSSELS 19215 (B) DUSSELDORF 1509
(C) FRANKFURT 8989

1. ECONOMIC MINISTRY OFFICIALS RESPONSIBLE FOR FRG
STEEL POLICY TAKE A SKEPTICAL BUT APPROVING VIEW OF
THE ACTION OF EC MINISTERS ON STEEL. STATE SECRETARY
IN THE ECONOMICS MINISTRY, (UNDERSECRETARY)
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DR. SCHLECHT COMMENTED THAT GERMANY HAD BEEN OBLIGED
"TO SWALLOW A TOAD" ("EINE KROETE SCHLUCKEN") IN
AGREEING TO EXPANSION OF THE MINIMUM PRICE SYSTEM
AND APPLICATION OF THE REFERENCE PRICE SYSTEM TO
IMPORTS TOGETHER WITH BI-LATERAL QUANTITATIVE AGREE-
MENTS WITH MAJOR SUPPLIERS. ON THE OTHER HAND, THEY
SAW NO OTHER WAY OUT AT THE TIME.

2. FOR ECONOMICS MINISTRY OFFICIALS, AT LEAST, THE EC'S RESTRICTIVE MEASURES ARE A SLAP IN THE FACE TO THEIR PHILOSOPHICAL BENT FOR A LIBERALIZED WORLD TRADING SYSTEM. OFFICIALS TOLD US THAT GERMAN APPROVAL OF THE EC PROPOSAL WAS GIVEN ON THE BASIS THAT THE PLAN WAS TEMPORARY IN CHARACTER AND WOULD BE REVIEWED BY MINISTERS PERIODICALLY. THEY HAD ALSO BEEN CONCERNED BY WHAT THEY CONSIDERED THE REAL POSSIBILITY OF FRENCH INDEPENDENT ACTION IN ERECTING PROTECTIVE BARRIERS, WHICH WOULD HAVE DONE DAMAGE TO THE ECSC AS A WHOLE.

3. OFFICIALS OF THE STEEL ASSOCIATION (WIRTSCHAFTSVEREINIGUNG EISEN AND STAHL-INDUSTRIES) REACTED SIMILARLY BUT ADMITTED FRANKLY THAT THEY WELCOMED THE MOVE AS A MEANS OF REDUCING THE PRESSURE OF IMPORTS ON DOMESTIC MARKETS. NEITHER INDUSTRY NOR GOVERNMENT WERE UNDER ANY ILLUSIONS, HOWEVER, THAT THE SYSTEM WOULD WORK SMOOTHLY. THE ADMINISTRATIVE PROBLEMS ARE IMMENSE. THERE ALSO APPEARS TO BE A DIFFERENCE OF INTERPRETATION OF THE MINISTERS' DECISION. GERMAN INDUSTRY OFFICIALS HAD UNDERSTOOD THAT THERE WOULD BE A DEGREE OF AUTOMATICITY SO THAT IMPORTS ENTERING BELOW REFERENCE PRICES WOULD PER FORCE BE ASSESSED WITH PENALTIES AT THE BORDER. IN FOLLOW-UP DISCUSSION WITH THE ADMINISTRATIVE OFFICE OF LIMITED OFFICIAL USE

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THE EC, THEY WERE SURPRISED TO LEARN THAT INDIVIDUAL COMPLAINTS FROM FIRMS ON SPECIFIC SHIPMENTS WOULD BE REQUIRED. THIS INVOLVES MASSIVE WORK FOR THE FIRMS AND THE ASSOCIATION, WHICH THEY ARE NOW PROCEEDING TO DO.

4. INDUSTRY SPOKESMEN ARE ALSO SKEPTICAL OF THE EC'S ABILITY TO ENFORCE THE SYSTEM SATISFACTORILY. THEY BELIEVE THAT THERE ARE JUST TOO MANY WAYS AROUND IT-- SOME OF THEM ILLEGAL. THE "FRANKFURTER ALLGEMEINE ZEITUNG" NOTED ONE INTERESTING TWIST NOW ALLEGEDLY BEING USED BY THE BRESCIANI WHERE SALES ARE MADE AT THE MINIMUM PRICE (REBAR) AND AT THE REFERENCE PRICE FOR OTHER ITEMS, BUT CONTRACTS CONTAIN CLAUSES PENALIZING SHIPPERS FOR LATE DELIVERIES. AMAZINGLY ENOUGH SOME SHIPMENTS GET DELAYED, THE PENALTY IS DEDUCTED FROM THE INVOICE PRICE, AND THE BUYER GETS HIS CHEAPER STEEL IN THE END.

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5. THE SUBJECT OF THE EC'S PLANS FOR RESTRUCTURING
OF THE STEEL INDUSTRY ALSO LEAVE GRAVE DOUBTS HERE.
ONE IMMEDIATE DIFFICULTY IS THE COMMISSION'S PROPOSAL
THAT CAPACITY BE CUT BACK EQUALLY BY A CERTAIN
PERCENTAGE (I.E. 15 PERCENT) IN ALL MEMBER STATES.
THE GERMANS WOULD BE DISADVANTAGED BY SUCH A SYSTEM,
SINCE THEY FEEL THEY HAVE THE MOST EFFICIENT PLANTS
IN EUROPE -- WITH THE EXCEPTION OF THE SAAR AREA.
(PLANS ARE ALREADY IN PROCESS OF DISCUSSION FOR
REORGANIZING THAT AREA'S MAJOR PRODUCERS FROM THREE
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INTO TWO. WE WILL BE REPORTING DETAILS.)

6. RELATED TO BOTH PRICE AND STRUCTURE IS THE QUESTION OF GOVERNMENT SUBSIDIES. AS PART OF THE EC PACKAGE, THE GERMANS INSISTED ON WORK GOING FORWARD WITHIN THE COMMISSION TO DRAW UP A "CODEX" OF GOVERNMENT SUBSIDIES BEING USED WITHIN THE COMMUNITY WHICH COULD LEAD TO THE PROGRESSIVE DISMANTLING OF SUCH SUBSIDIES. IT IS NOT CLEAR ON HOW FAR THE GERMANS THINK THEY WILL GET ON THIS TACK, BUT THEY AT LEAST INTEND TO PUSH FOR PROGRESS WITHIN THE EC AT ALL LEVELS.

7. ON THE QUESTION OF SUBSIDIES WITHIN THE FRG ITSELF, OFFICIALS ADMITTED THAT WITH THE CONTINUED "HARD TIMES" FOR THE STEEL INDUSTRY, PRESSURES WERE GROWING FOR SOME KIND OF ASSISTANCE. THE GOVERNMENT WILL PROBABLY MAKE SOME DECISION BY FEBRUARY ON REGIONAL HELP AND SUBSIDIZED RATES ON LOANS FOR REORGANIZATION OF THE SAAR STEEL INDUSTRY, IN CONJUNCTION WITH EC REGIONAL ASSISTANCE. THERE IS ALSO PRESSURE IN NORTH RHINE WESTPHALIA (RUHR AREA) FOR THE GOVERNMENT TO MAKE UP FOR LOSSES GERMAN STEEL FIRMS ARE REQUIRED TO UNDERGO BY MANDATED PURCHASE OF HIGH-PRICED GERMAN COAL, WHICH IS NINE TIMES OUT OF TEN, HIGHER THAN THE WORLD MARKET PRICE (SEE REFTEL B). WE GET THE IMPRESSION THAT BY ACCEPTANCE OF THE EC PLAN A DECISION ON FRG SUBSIDIZATION ON COAL PURCHASES HAS BEEN STAVED OFF FOR THE TIME BEING.
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